

FranchiseCanada

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ASK AN INSURANCE EXPERT

Q How does the new harmonized sales tax in Ontario and B.C. affect insurance?

A: In July of this year, both Ontario and British Columbia introduced the harmonized sales tax (HST), and are now the 4th & 5th provinces with the tax (New Brunswick, Nova Scotia, and Newfoundland and Labrador being the others). While taxes on traditional employee benefits plans did not change, the HST is applicable on:

- Administrative Services Only (ASO) plans without stop loss insurance
- Personal Health Spending Accounts (HSA)
- Healthcare Spending Accounts (when it is the only ASO arrangement)

How will this impact your monthly premiums?

Most medical goods and services are GST/HST exempt, with two exceptions:

- Massage Therapy Services
- Over The Counter (OTC) Drugs – in B.C. only

Massage therapy services that are currently subject to GST will now be subject to HST in both Ontario and B.C. The expected impact to Extended Health Care (EHC) costs is approximately a 0.5% increase. OTC drugs in B.C. are also subject to HST (previously GST), impacting the few plans that cover OTC prescriptions. An increase of approximately 1% is expected. In Ontario, plans that cover OTC prescriptions will not be affected, as the province already applies both the GST and PST to OTC drugs.

Place of Supply:

The rules regarding Place of Supply also changed. In April of this year, the Department of Finance (Canada) published draft regulations that changed how sales tax is applied. Previously, the emphasis was on the location of the supplier (insurance company). Now the taxes are based on the location of the service recipient (plan sponsor).

Here are some examples of how the rates will apply:

If a plan sponsor's contract address is New Brunswick, the 13% HST rate will be used.

If the plan sponsor's contract address is Quebec, the 5% GST and 7.5% QST rates will be used.

If the plan sponsor's contract address is Alberta, the 5% GST rate will be used.

However, more changes may be forthcoming. If the proposed changes to the Excise Tax Act are passed, then the location of the plan's members will be considered, rather than the location of the plan sponsor. A plan that has members in multiple provinces that include at least one province that charges HST will be subject to HST, while a multi-jurisdictional plan might face different HST rates for each province. There is no timetable for changes to the Excise Tax Act.

Provincial Premium Tax:

If you have a traditional, fully pooled employee benefits plan, then chances are you have never heard of the Provincial Premium Tax (PPT). Every province has such a tax, and your insurance company collects it as part of your monthly premiums, and submits it to your provincial government on your behalf. However, if you have an Administrative Services Only plan, a Healthcare Spending Account, or a Cost Plus account, you will be responsible for paying your PPT along with your premiums/claims.

PROVINCE:	PPT RATE:
NL	4.00%
PE	3.50%
NS, NT, NU, SK	3.00%
QC	2.55%
AB, BC, MB, NB, ON, YT	2.00%



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